



United States Department of Agriculture  
Risk Management Agency

June 2005

## 2005 COMMODITY INSURANCE FACT SHEET

# Grain Sorghum-Crop Revenue Coverage North Carolina

**Crop Revenue Coverage (CRC)** provides revenue protection against a decline in market prices as well as a shortfall in production. Under CRC, the guarantee is in dollars. A loss situation arises when the dollar value of your production falls below the final dollar guarantee. CRC provides protection whether prices are rising or falling:

- In a year of rising prices (such as 2002), production shortfalls are compensated at the higher market-based harvest price. This is important if any lost production must be replaced at higher market prices for on-farm feeding or to fulfill delivery on a forward contract;
- In years of falling prices, your minimum guarantee ensures that you will receive a pre-determined amount of income per acre, regardless of yields or prices.

### Causes of Loss

CRC provides protection against unavoidable loss of revenue due to the following causes in the insurance period:

Adverse weather conditions<sup>1</sup>  
Failure of irrigation water supply<sup>2</sup>  
Harvest price less than base price  
Insects<sup>3</sup>  
Fire  
Plant disease<sup>3</sup>  
Wildlife

<sup>1</sup>Natural perils such as hail, frost, freeze, wind, drought, and excess moisture. <sup>2</sup>If caused by an insured peril. <sup>3</sup>But not damage due to insufficient or improper application of recommended control measures.

### Insurance Period

Coverage usually begins when the insured crop is planted and ends the earliest of: (1) destruction of the crop, (2) harvest of the crop, (3) abandonment of the crop, (4) final adjustment of a loss, (5) December 10 following planting.

### Important Dates

Sales Closing .....February 28, 2005

Note: Final planting and acreage reporting dates vary by county. Consult a crop insurance professional for specific dates in your county.

### Definitions

**Coverage Level**—Levels of protection available are from 50 to 75 percent of approved average yield

**Base Price**—The price used to calculate the Minimum Guarantee and the premium is based on the December 2005 Chicago Board of Trade (CBOT) futures average daily price during February 2005.

**Minimum Guarantee**—The guaranteed minimum dollar protection is the average yield X base price X coverage level percent:

Example: 60 bushels per acre X \$2.40 X 75 percent = \$108 per acre minimum guarantee

**Harvest Price**—The price used to determine calculated revenue and harvest guarantee is based on the December 2005 CBOT futures average daily price during October 2005.

**Harvest Guarantee**—Average yield X harvest price X coverage level percent:

Example: 60 bushels per acre X \$2.00 X 75 percent = \$90 per acre harvest guarantee

**Calculated Revenue**—Value of your production determined by bushels produced X harvest price:

Example: 20 bushels per acre produced X \$2.00 = \$40 per acre calculated revenue

Note: The actual price you receive for selling your crop is **not** a factor in CRC calculations.

**Final Guarantee**— Higher of the minimum or harvest guarantee.

Note: Your premium will **not** increase if final guarantee is higher than the minimum guarantee.

**Indemnity:** Final guarantee – calculated revenue

Example: \$108 – \$40 = \$68 per acre indemnity

## Price Elections

YEAR	BASE PRICE	HARVEST PRICE
2005	2.10	*
2004	2.43	2.16
2003	2.30	2.09

\*Available in early September 2005

## Insurance Units

Your insurable acreage is grouped into a unit based on your selection of one of the following unit arrangements.

**Basic Unit:** A basic insurance unit includes all of your grain sorghum acreage in the county by share arrangement. For example, the sorghum acreage on your own farm (including land cash rented) would be one basic unit, while other land on shares with someone else would be a second basic unit. Premiums are reduced 10 percent for a basic unit.

**Optional Units:** If a basic unit consists of two or more farm serial numbers (FSN) and certain record-keeping criteria are met, you may select optional units by FSN. The 10-percent basic unit premium discount will not apply.

**Enterprise Unit:** An enterprise unit combines all your grain sorghum in the county into one county-wide unit, regardless of ownership, share, or rental arrangement. A varying premium discount will apply, based upon the number of insured acres. You must qualify for two or more basic/optional units in order to be eligible for an enterprise unit.

## Loss Example

This example assumes average yield of 60 bushels per acre, base price of \$2.40, harvest price of \$2.00, 20 bushels per acre production-to-count, basic unit, 75 percent coverage level.

60	Bushels per acre approved yield
x .75	Coverage level
45	Bushels per acre guarantee basis
x 2.40	Base price per bushel
\$108	Minimum guarantee per acre

When the harvest price is announced in September, a harvest guarantee is calculated. The final guarantee is the higher of the minimum or harvest guarantee.

Harvest guarantee per acre = \$90  
(45 bushels per acre X \$2.00 harvest price)

\$108	Final guarantee per acre (higher of minimum or harvest guarantee)
– 40	Calculated revenue (20 bushels per acre produced X \$2.00 harvest price)
68	Indemnity per acre
– 6	Approximate cost per acre
\$62	Net indemnity per acre

Note: In most years, the harvest price is less than the base price; thus, the harvest guarantee will usually be less than the minimum guarantee. Occasionally, the harvest price may be greater than the base price (as in 2002), resulting in the harvest guarantee becoming the final guarantee.

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